USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 11/15/2005

GAIN Report Number: JA5529

Japan

Frozen Potato Products

Annual

2005

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Report Highlights:
Japan's imports of frozen potato fries increased by 3 percent from 213,000 Metric tons (tons) in 2003 to 217,000 tons in 2004, due to favorable holiday weather in Japan and the advanced announcement of a poor potato crop in Canada. U.S. exports recovered both total quantity and market share from the previous year. Domestic production leapt 22 percent due to increased commercial planting of a new variety potato for French fries in 2004.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Tokyo ATO [JA2]
[JA]

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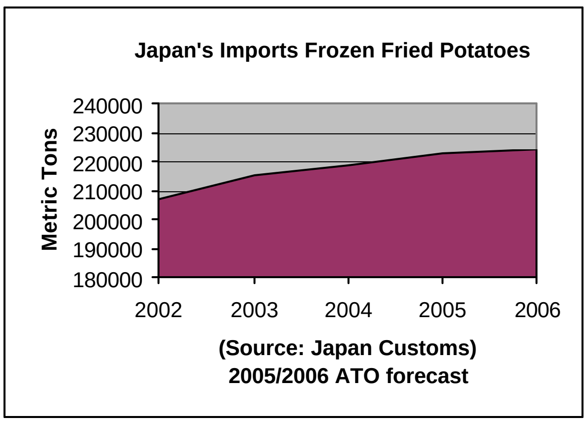
Executive Summary



Japan is the biggest importer of U.S. frozen fried potatoes (HS code 2004.10). Over 40 percent of all U.S. exports went to Japan in 2004. The second largest customer for U.S. frozen potato exports is Mexico amounting to only 15 percent of all U.S. French fry exports. U.S. exports to Japan shows an increase of 9 percent during January through August 2004 over the same period in 2003. In other words, U.S. exports in 2004 with a 79 percent market share recovered from the a lower market share of 73 percent in 2003.

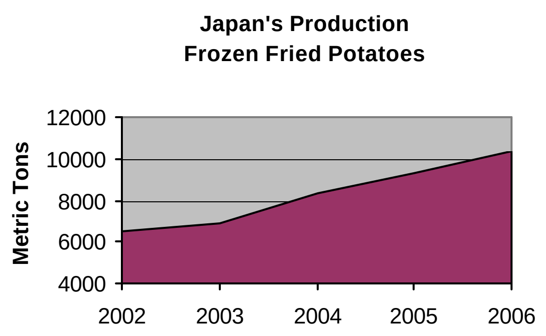
The frozen potato fry market is closely tied to the performance of the fast food restaurants and amusement parks in Japan. Sales of frozen potato fries in Japan are also impacted by weather conditions during the long vacation season. Annually, there are three peak periods of demand for frozen potato fries: 1) Golden week in late April and early May; 2) summer vacation season in late July and August; and 3) The New Year vacation season in early January.

Favorable weather conditions during vacation seasons in 2004/2005 did much to influence the improved sales performance. A special event, the Aichi Expo 2005, open from March through September this year, also influenced the upswing in fried potato sales. The Expo had more than 22 million visitors during its exhibition in Nagoya, Japan.

With respect to Japanese consumer preferences, a trend of diversified eating habits among teenagers and younger-aged children are stabilizing fried potato consumption. On the other hand, the increasing elder population creates demand for developing non-fried frozen potato products.

Finally, after U.S. suppliers replaced beef tallow with vegetable oil for pre-cooking fries (in response to BSE), the concerns of Japanese importers were resolved and they are resuming their imports from the U.S. industry, which already had a reputation of reliability.

Production



(Source: Japan Frozen Food Association)
2005/2006 ATO Forecast

Most domestic potato fries come from Hokkaido (most northern part of the big island in Japan) with seven major manufacturers. The domestic fresh potato varieties, Toyoshiro and Hokkai-Kogane have been the primary source for domestic frozen potato products in Japan until 2003. Both varieties have less solid contents and more moisture than the typical imported fries made from western potato varieties. However, domestic production jumped 22 percent in 2004 due to farmers in Hokkaido beginning to adopt a new domestic potato variety, Kita-Akari, which has more solid content and over 50 percent yield, almost the same as the Russet Burbank potato.

Domestic potato products are drawing greater attention from among Japanese users; food manufacturers, retailers and food service industry, which feel there is a greater emphasis on the food safety image. The domestic potato producers have yet to fulfill the demand of these users, because of the overwhelming short supply through 2003. However, supplies improved in 2004 and continued growth in production is expected for the next two to five years. Particularly, production in Hokkaido is increasing annually due to voluntary restraint in the production of sugar beet and wheat in the region.

Domestic French fry production (HS code: 2004.10) shared only 4 percent out of total deliveries in 2004 though, domestic non-fried frozen potato (HS code: 0710.10) is nearly three times that of total imports in this category for 2004, and is expected to increase yearly due to growth of Japan's aging population. It is the first trial year for this report to include non-fried frozen potato products (HS code: 0710.10) among the Frozen Potato Products as well as Frozen Fried Potatoes. We researched the influence of non-fried frozen potato products in the market (See details under "Trade").

Domestic Production & Total Import: Quantity
January through December: World Trade Atlas

HS Code	0710.10			
Description	Frozen Potato: cooked by steaming or boiling in water			
(Metric tons)	2002	2003	2004	Change-04/03
Domestic Pro.	21,648	22,239	19,020	-14.5 %
Total Import	5,671	5,750	6,467	12.5 %
Non fry total	27,319	27,989	25,487	-8.9 %

HS Code	2004.10			
Description	Frozen Potato: fried potatoes including mash and other potatoes			
(Metric tons)	2002	2003	2004	Change-04/03
Domestic Pro.	6,527	6,855	8,375	22.2 %
Total Import	261,312	233,499	261,975	12.2 %
Fried total:	267,839	240,354	270,350	12.5 %

HS Code	0710.10 + 2004.10			
Description	Frozen Potato: Total Quantity (tons) and Share (%)			
	2002	2003	2004	Change-04/03
Total: tons	295,158	268,343	295,837	10.2 %
Total share: %	100.0 %	100.0 %	100.0 %	-
0710.10 Dome.	7.3 %	8.3 %	6.4 %	-22.4 %
0710.10 Import	1.9 %	2.1 %	2.2 %	2.0 %
2004.10 Dome.	2.2 %	2.6 %	2.8 %	10.0 %
2004.10 Import	88.5 %	87.0 %	88.6 %	1.8 %

Policy
No significant change in these tariff code numbers

HS Code		Description	**Rate of Duty**
0710.10	0710.10-000	Frozen Potatoes: uncooked or cooked by steaming or boiling in water	8.5 %
2004.10	2004.10-100	Frozen Potatoes: Cooked, not otherwise prepared (fried potatoes)	8.5 %
	2004.10-210	Frozen Potatoes: Mashed potatoes	13.6 %
	2004.10-220	Frozen Potatoes: Other	9 %

Trade
July through June 2004/2005, total Frozen Fried Potato (HS 2004.10) imports of Japan increased by 1.6 percent, which benefited from Japan's favorable weather during the vacation seasons as mentioned earlier. Another element of the increase is convenience store chains are beginning to sell a variety of fried potato products similar to those in fast food outlets. Major U.S. frozen potato manufacturers with representatives based in Japan were instrumental in generating this trend.

U.S. recovered its market share in 2004 and 2005 that had once fallen in 2003. This recovery coincided with advanced information about unfavorable weather conditions for potato crops in Canada in 2004.

Imports of non-fry Frozen Potatoes (HS 0710.10) increased by 5.7 percent to support requirements of Japanese retailers to develop potato products with a healthier image. Elder population concerns about cholesterol levels associated with any fried products, not only potato and, weight gain are factors driving this demand. The retail buyers are always seeking new food items to appeal to these consumers' interest in healthier food.

Example of non-fry potato products

Chinese made frozen cut potatoes	Chinese made small size potatoes
	

Japanese Import of Frozen Potato Products: Quantity (Metric tons)
July through June: World Trade Atlas

Frozen Potato	Fried (HS 2004.10)				Non-Fried (HS 0710.10)			
Country	2004	2005	Change 05/04%	Share %	2004	2005	Change 05/04%	Share %
World Total	207,032	210,412	1.6	100.0	6,090	6,436	5.7	100.0
U.S.A.	155,595	162,231	4.3	77.1	238	201	15.5	3.1
Canada	39,205	37,366	-4.7	1.9	325	129	60.3	2.0
New Zealand	3,877	3,969	2.4	0.9	0	3	NA	0.05
Belgium	256	1,919	651.2	0.3	0	0	0	0
Netherlands	923	651	-29.5	1.6	0	0	0	0
Germany	1,033	3,469	235.8	0.3	0	0	0	0
China	1,725	540	-68.7	0	5,150	5,763	11.9	89.5
Colombia	0	21	NA	0.01	185	253	36.8	3.9
Italy	439	210	-52.2	0.1	0	0	0	0
Australia	3,919	0	0	0	0	0	0	0

Marketing

Japan has one of the most effective infrastructures in the world for distribution, handling and storage of all frozen products. Japan's greater availability of an infrastructure to accommodate handling frozen potato products provides easier access by foreign competitors as well. More than 30 countries exported frozen potato products to Japan last year.

Based on this infrastructure, population dynamics and increasingly favorable macroeconomic trends in the country, the food industry expects that Japan might have a potential market capacity equivalent to a maximum of 300,000 metric tons for frozen fried potatoes. The United States is in the best position to fulfill this anticipated market potential, though many other third-country competitors and some domestic Japanese producers will seek every opportunity to increase share.

Three major North American producers supply Japanese trading houses after which the products are sold to retailers and restaurants through Japanese food manufacturers and wholesalers. In special cases, some national retailers and restaurant chains import products directly from foreign countries (Belgium, Germany) seeking not lower cost but to define their own specifications (organic and or specified potato variety).

Both major food manufacturers and consumers in Japan support domestically produced potatoes. Nichirei, a large-scale frozen food producer, sells domestic fried potato that indicates the region of origin, "Hokkaido-san Fried Potato (Made in Hokkaido: see attached picture)." Another large frozen food manufacturer, Ajinomoto, has similar products. In the retail segment, there is a tendency to develop domestic French fry product in order to differentiate their products from their competitors, including the products imported from Europe, Oceania or the United States. For example, 'Natural Cut' fries have the strongest potential in the market due to the shorter length of domestic and European potato varieties.

Further examples of product developments, potatoes nuggets stuffed with cheese or chicken filling are becoming popular in convenience stores. Some food service chains are also evaluating the potential for baked potatoes for a fresh new offering from their restaurants.

Retail packaged products using domestic potatoes

Nichirei's fried potato product: package describes the potato made in Hokkaido	Ajinomoto's fried potato product: same sentence on the package
	

Price

Import prices were slightly up, 1.5 to 2 percent (up 1 - 1.5 cents/pound) from the year before, due to increase of labor cost and fuel price in 2004. Nearly the same level of price increase was anticipated in 2005, however; so far, the surge in the petroleum price has not seriously influenced the price of imported product.

Domestic prices went up 4 percent in 2004 according to rise in demand.

PS&D: Production, Supply and Distribution

Country	Japan						
Commodity	**Potato Products, Frozen**				**(MT)(MT, Net Weight)**		
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2003		07/2004		07/2005	MM/YYYY
Deliv. To Processors	14,300	60,613	14,800	57,073	0	59,400	(MT)
Beginning Stocks	0	0	0	0	0	0	(MT, Net Weight)
Production	6,855	29,094	7,100	27,395	0	28,500	(MT, Net Weight)
Imports	207,032	213,122	210,000	216,848	0	220,600	(MT, Net Weight)
TOTAL SUPPLY	213,887	242,216	217,100	244,243	0	249,100	(MT, Net Weight)
Exports	0	184	0	653	0	500	(MT, Net Weight)
Domestic Consumption	213,887	242,032	217,100	243,590	0	248,600	(MT, Net Weight)
Ending Stocks	0	0	0	0	0	0	(MT, Net Weight)
TOTAL DISTRIBUTION	213,887	242,216	217,100	244,243	0	249,100	(MT, Net Weight)

Import Trade Matrix

Country	Japan		
Commodity	Potato Products, Frozen		
Time Period	**Jan.-Dec.**	**Units:**	**Metric Ton**
Imports for:	**2003**		**2004**
U.S.	188,410	U.S.	198,967
Others		**Others**	
Canada	36,268	Canada	49,816
New Zealand	3,204	New Zealand	4,317
China	5,592	China	8,022
Germany	175	Germany	2,204
Belgium	416	Belgium	1,699
Australia	3,497	Australia	1,659
Netherlands	926	Netherlands	751
Italy	259	Italy	405
France	82	France	103
Total for Others	50,419		68,976
Others not Listed	421		500
Grand Total	239,250		268,443